

Message Text

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ACTION STR-07

INFO OCT-01 EUR-12 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00
AID-05 SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 AF-10 ARA-10 EA-10 NEA-11 OIC-02
/169 W

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P 161440Z MAY 78
FM USMISSION GENEVA
TO SECSTATE WASHDC PRIORITY 9671
INFO AMEMBASSY OTTAWA

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USMTN

ACTION STR PASS ELECTRICALLY

STR PASS CODEL

E.O. 11652: N/A
TAGS: MTN, ETRD, CA
SUBJECT: U.S.-CANADIAN BILATERAL ON MACHINERY TARIFFS

1. IN THE COURSE OF THE DETAILED DISCUSSIONS ON CANADIAN MACHINERY TARIFFS ON MAY 12 (REPORTED SEPTTEL) U.S. DEL TOOK THE OPPORTUNITY TO RAISE, ON A BROADER BASIS, THE PROBLEM OF APPLIED RATES, THE "MADE IN CANADA," CONCEPT AND THE MACHINERY PROGRAM. ALL OF THESE TECHNIQUES ARE DESIGNED TO ENABLE CANADA TO RETAIN TARIFF FLEXIBILITY BUT CREATE UNCERTAINTY FOR U.S. EXPORTERS.

2. U.S. DEL EMPHASIZED THAT A MAJOR OBJECTIVE FOR THE U.S. IN THE NEGOTIATIONS WAS TO PROVIDE GREATER SECURITY
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FOR U.S. EXPORTERS BY ELIMINATING UNCERTAINTIES IN CANADIAN TARIFF TREATMENT. CANADIAN ABILITY TO MANIPULATE THE TARIFF WAS AN IRRITANT IN OUR COMMERCIAL RELATIONS, AND SUBSTANTIAL PROGRESS IN SOLVING THIS PROBLEM WAS A PREREQUISITE FOR A SUCCESSFUL MTN OUTCOME WITH CANADA. CANADIAN DEL (DENIS) ACKNOWLEDGED THE IMPORTANCE OF THE ISSUE BUT SAW A BASIC PHILOSOPHIC DIFFERENCE BE-

TWEEN THE TWO DELS. CANADA WAS OPERATING FROM VERY NARROW INDUSTRIAL BASE AND NEEDED SOME FLEXIBILITY TO PROVIDE FOR ITS FUTURE DEVELOPMENT. HE SAID PRESENT STRUCTURE OF THE CANADIAN TARIFF HAD GROWN UP OVER MANY YEARS, AND A WHOLESALE REVISION IN THE TARIFF WAS NOT IN THE CARDS.

3. U.S. DEL STRONGLY CONTESTED CANADIAN VIEW, STATING THAT SECURITY OF TARIFF RATE IS INHERENT IN GATT CONCEPT AND CANADA AS AN ADVANCED INDUSTRIAL COUNTRY COULD HARDLY CLAIM THE PREROGATIVES OF AN LDC. THE U.S. SOUGHT THE BINDING OF APPLIED FREE RATES (PARTICULARLY THOSE IN EXISTENCE OVER A LONG TIME PERIOD), REMOVAL OF THE "MADE IN CANADA" CONCEPT FROM THE TARIFF AND PROGRESS IN BINDING THE TARIFF FOR MACHINERY AND EQUIPMENT NOW ENTERING DUTY-FREE UNDER THE MACHINERY PROGRAM (TARIFF NO. 42700).

4. DENIS RESPONDED THAT WHILE CANADA COULD NOT AGREE TO RESTRUCTURE ITS ENTIRE TARIFF, IT WAS PREPARED TO MOVE IN THE DIRECTION THE U.S. WANTED, AS INDICATED IN THE CANADIAN OFFER OF DUTY-FREE BINDINGS AND DUTY ELIMINATIONS IN THE MACHINERY AREA. HE SAW THE POSSIBILITY OF ELIMINATING SOME OF THE "MADE IN CANADA" POSITIONS IN THE TARIFF, AND COMMENTED THAT A NUMBER OF THESE WERE ANTI-QUATED, IN ANY CASE. HE SAID THAT CANADA WAS PREPARED TO CONSIDER ALL SPECIFIC REQUESTS TO BIND APPLIED FREE RATES LIMITED OFFICIAL USE

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AND WOULD EXAMINE CAREFULLY U.S. REQUESTS TO EXPAND DUTY-FREE TREATMENT IN THE MACHINERY TARIFF BASKET (42700). BUT DENIS COULD NOT AGREE THAT CANADA WAS OBLIGATED TO PROVIDE BOUND DUTY-FREE TREATMENT ON ALL UNBOUND RATES WHICH WERE CURRENTLY APPLIED FREE. BY OFFERING FORMULA CUTS IN THESE INSTANCES, CANADA WAS ACCEPTING A RESTRAINT ON THE LEVEL OF DUTY THAT COULD BE IMPOSED.

5. COMMENT: ALTHOUGH THE ISSUES DISCUSSED ABOVE HAD BEEN RAISED PREVIOUSLY IN THE CONTEXT OF INDIVIDUAL TARIFF ITEMS, DEL BELIEVES IT WAS IMPORTANT TO PLACE THESE QUESTIONS IN BROADER PERSPECTIVE, AND GIVE CANADA DEL A CLEAR INDICATION OF STRONG U.S. VIEWS. WE GAINED THE IMPRESSION THAT WHILE CANADIANS WILL FIGHT THE PHILOSOPHIC ARGUMENT WITH CUSTOMARY VIGOR, THEY ARE PREPARED TO TAKE A PRAGMATIC POSITION ON INDIVIDUAL ITEMS. THIS SHOULD PROVIDE THE OPPORTUNITY FOR THE U.S. TO ACHIEVE SATISFACTORY PROGRESS IN ITS OBJECTIVE TO ACHIEVE A GREATER DEGREE OF TARIFF SECURITY FOR U.S. EXPORTS.

6. DRAFTED BY HAMERSCHLAG. MCDONALD

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